

The Debt Service Fund provides for repayment of government debt, collateralized by the full faith and credit of the City's taxing authority.

Overview

Funding sources for debt payment include property taxes, sales taxes, transfers from other funds, special assessments and interest earnings.

The City's Debt Policy is:

- ✓ long-term borrowing (bonds) is confined to capital improvements and self-insurance programs;
- ✓ short-term debt is used for bond anticipation purposes;
- ✓ revenue bonds are issued for projects of enterprise funds;
- ✓ an aggressive retirement program be maintained for existing debt, ten years for City at-large debt and 15 years for special assessment debt;
- ✓ general obligation debt finances general purpose public improvements which cannot be financed from current (pay-as-you-go) revenues;
- ✓ special assessment general obligation debt is used to finance special benefit district improvements; and
- ✓ a minimum Debt Service Fund reserve of \$3 million be maintained.

A component of the debt policy is compliance with the legal debt limit. According to Kansas statutes, bonded indebtedness is not to exceed 30 percent of the sum of taxable tangible property valuation and motor vehicle assessed valuation within the jurisdiction.

Finance and Operations

The budget maintains property tax support at the ten-mill level. No increases in property tax rates are assumed. Debt service estimates are based on the adopted 2002–2011 Capital Improvement Program.

The debt service projection includes general obligation local sales tax (GO-LST) bonds to finance construction of the Tyler/Maize and Woodlawn freeway interchanges

New revenue streams directly offset the debt service requirements for the Tourism and Convention (T&C) and Tax Increment Financing (TIF) Districts. Debt service for the Hyatt Parking Garage and Energy Complex are supported by transient guest taxes exclusive to the Hyatt Hotel. The debt service of the TIF Districts is supported by property tax resulting from the improvements in the respective areas.

Statement of Legal Debt Margin As of February 1, 2003

2002 Tangible Valuation	2,281,661,715
2001 Motor Vehicle Property Assessed Value	324,708,562
Equalized tangible valuation for computation of bonded indebtedness limitations	\$ 2,606,370,277
Debt limit (30 percent of \$2,606,370,277)	\$781,911,083
Bonded indebtedness	356,408,652
Temporary notes	90,700,000
Total Net Debt	\$447,108,652
Less exemptions allowed by law:	
Airport	4,865,000
Sewer Improvements	60,928,742
Park Improvements	7,601,494
Sales Tax	101,000,000
Storm Water Utility	9,381,360
Total deductions allowed by law	\$183,776,596
Legal debt applicable to debt margin	263,332,056
Legal debt margin	\$518,579,027

The pay-as-you-go program consists of temporary note repayment. Temporary notes may be used for projects, which may not qualify for tax-exempt bond status and therefore, are repaid with higher interest taxable bonds. Pay-as-you-go financing reduces future debt service requirements by retiring obligations following short-term financing.

The target fund balance is budgeted at five percent of budgeted expenditures. Projects that are under construction, but not finalized, have caused the reserve level to increase. As the unfinished projects are completed, the fund balance will be reduced to the target level.

Revenue Assumptions

Current property taxes...

- ✓ in 2004 will grow at eight and a half percent, slowing to four percent annually in 2005 and beyond. No change in the taxing rate is assumed.
- ✓ assume a ten mill levy for all years.

Delinquent tangible property tax...

- ✓ (for prior years) is projected at two percent (historical average) of current property taxes levied.
- ✓ Payments in lieu of property tax (PILOT) are based on the City share of these payments from outstanding industrial revenue bonds.

Current special assessments (SAs)...

- ✓ for 2003 and thereafter are the actual special assessments certified, less any advance or prepayments, as of December 31, 2002.
- ✓ assume a five percent delinquency rate.
- ✓ will change as new assessments are issued and as owners opt for advance payment of assessments.

Prepaid special assessments...

- ✓ are from the City's payment schedules for these assessments, as of January 31, 2003.

Delinquent special assessments...

- ✓ (for prior years) are estimated based on the historical relationship (three and a half percent) to total current and new special assessments.

Payments in lieu of special assessments (PILOSA)...

- ✓ are developed by the Finance Department for GO/SA debt service paid directly by the Water, Sewer, and Airport utilities.

Utility delinquent special assessments...

- ✓ are paid by the Water, Sewer and Storm Water utilities.
- ✓ are for unpaid general obligation assessments related to water and sewer projects.

New special assessment revenues...

- ✓ are projected to cover debt service (principal and interest) payments for new special assessment projects, less five percent delinquency.
- ✓ relate to debt service payment schedule assumptions below, under "Expenditure Assumptions."

Motor vehicle property taxes...

- ✓ are projected to grow two percent annually.
- ✓ are projected first as one total amount, then allocated to the General Fund and the Debt Service Fund.
- ✓ vary between the General and Debt Service Fund because of the state allocation formula, which relates to the prior (budget) year share of the current property tax levy for each fund.

Interest earnings...

- ✓ are based on an assumed investment earnings rate (two and a half percent) relative to unencumbered fund balance and other total (current) revenues in the Debt Service Fund.

✓

City Hall parking/rent revenues...

- ✓ are based on utilization of the City Hall parking facility pursuant to estimates provided by the Property Management division.

Transfers in...

- ✓ from the Tourism and Convention Fund and the Tax Increment Financing Districts are based on debt service schedules for general obligation projects related to these funds.
- ✓ are based on actual payment schedules for current GO debt funded by property tax and special assessments.
- ✓ for local sales tax (LST) projects include the amounts for actual (current) debt service (principal and interest).
- ✓ support debt service for the previous sales tax bond issues in 1992 and 1996 for \$50 million and \$25 million, respectively.

Expenditure Assumptions

(GO) general obligation debt service...

- ✓ is based on actual payment schedules for current GO debt funded by property tax and special assessments.

GO/LST (local sales tax) debt service...

- ✓ reflects the actual debt service schedule for current general obligation debt funded by the local sales tax.
- ✓ Includes projected future GO/LST debt service for freeway projects as approved in the 2002-2011 CIP.

Fiscal agent/other...

- ✓ Represents an estimate of bond issuance costs based on 0.1 percent of debt service for all current GO (paid by property tax, SAs and LST).

Temporary note repayment...

- ✓ represents a source available for pay as you go financing.
- ✓ fluctuates to maintain fund balance at five percent of annual expenditures.

New GO debt service paid from property tax...

- ✓ is estimated as the principal and interest payments needed to fund approved and potential projects.

- ✓ assumes payments spread over a ten-year period at a 4.0 percent annual cost on outstanding principal.
- ✓ assumes commencement with one interest payment for six months of bond issuance, and principal payment beginning in the year following.

New special assessment debt service...

- ✓ is estimated as the principal and interest needed for special assessment projects of \$12.4 million annually.
- ✓ assumes payments are spread over a 15 year period at a 4.0 percent annual cost on outstanding principal with one interest payment between six and 12 months after bond issuance, depending on certification to the County, and principal payments beginning in the year following.

Fund balance (December 31)

- ✓ on December 31, 2003, is projected to be \$21,807,128 or 34.82 percent of fund expenditures.
- ✓ on December 31, 2004, is projected to be \$3,505,758 or 4.26 percent of fund expenditures.

Debt Service Fund Budget Summary

	2002 Actual	2003 Adopted	2003 Revised	2004 Adopted	2005 Proposed
General Property Tax	21,701,218	22,170,480	22,170,480	23,819,230	24,770,960
Special Assessments	25,704,868	24,686,070	24,872,840	23,679,500	22,634,680
Motor/Recreational Vehicle Tax	3,535,429	3,508,490	3,535,430	3,606,140	3,678,260
Interest Earnings	2,233,962	500,000	1,000,000	1,000,000	500,000
Transfers In/T&C	2,396,280	2,408,560	2,514,510	1,894,570	1,916,350
Transfers In/TIF Districts	710,080	1,400,460	2,401,570	2,260,050	2,325,160
Transfers In/Other	10,683,033	6,666,560	7,869,660	7,771,020	7,670,580
Total Debt Service Fund Revenue	66,964,870	61,340,620	64,364,490	64,030,510	63,495,990
Existing Debt	52,294,372	44,606,090	52,086,580	50,965,880	47,387,770
Temporary Notes	984,314	12,965,000	10,550,000	27,240,000	8,920,000
New Debt	0	5,071,000	0	4,126,000	7,193,000
Appropriated Reserves	0	0	0	0	0
Total Debt Service Fund Expenditures	53,278,686	62,642,090	62,636,580	82,331,880	63,500,770
Revenue Over (Under) Expenditures	13,686,184	(1,301,470)	1,727,910	(18,301,370)	(4,780)
Debt Service Fund Balance	20,079,218	3,000,263	21,807,128	3,505,758	3,500,978

The Adopted 2002-2011 Capital Improvement Program (CIP) is presented to the City Council as a separate document. The program is a projection of infrastructure construction and reconstruction over the next decade.

The schedule of new capital projects represents the efforts of the City to address critical infrastructure needs based on evaluations of:

- need for new capital construction to support community growth and development;
- existing infrastructure reconstruction requirements;
- capital investments necessary to improve services to the public;
- coordination with available Federal and State grant funding; and
- local financing capabilities based on prior City Council policy determinations, including designated mill levy support (ten mills) and use of local sales tax revenues for freeways, as well as a limited amount for arterial streets and bridges.

CIP Development and Capacity Forecasting. The development of the CIP is coordinated by the CIP Administrative Committee, which includes senior staff from City departments. The process consists of:

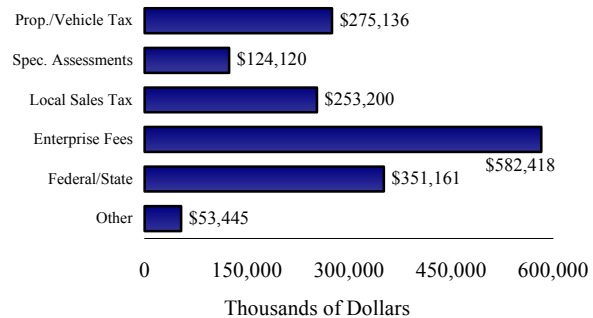
- confirmation of existing debt obligations and funding sources required to defray these costs;
- verification of open or outstanding capital projects which require future debt financing;
- projection of revenues and expenditures on a multi-year basis, first to meet existing debt obligations and then to project debt financing capacity for new capital project costs; and
- proposals for future capital project costs based on the past CIP and staff's understanding of City Council and community needs to the extent that those future project costs can be sustained given projections of the revenue stream and debt capacity.

The Capital Improvement Program - all debt service obligations for current capital projects and new projects approved for 2002-2011. The 2002-2011 CIP totals over \$1.6 billion over the ten-year period.

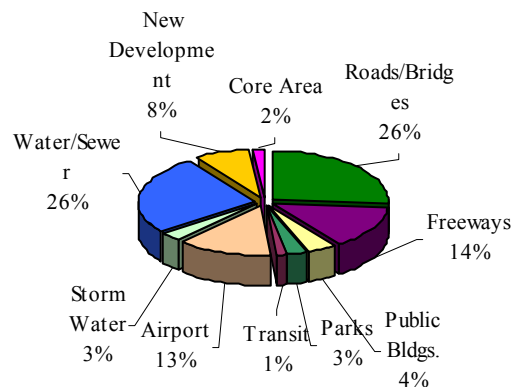
The City's capital program is diverse in meeting capital needs for new and reconstructed roadways, bridges, parks, public facilities, railroad grade separations, infrastructure for new residential development, downtown development, public transit and City enterprises (water, sewer, storm water, airport, and golf). The Capital Improvement Program includes 383 new projects over the next ten years.

The property tax provides 17 percent of the financial resources. Another significant revenue source is federal/state grants (21 percent of the total). New residential development capital costs are paid from special assessments (eight percent). The enterprise activities (water, sewer, storm water, airport and golf) fund capital projects through fees constituting 35 percent of total CIP resources. Local Sales Tax funding of 15 percent of the proposed CIP is based on a projection of freeway (Kellogg) construction segments in both east and west Wichita. Other revenue sources comprise the remaining 3 percent of CIP funding.

Capital Improvement Program Revenues \$1,639,480,000

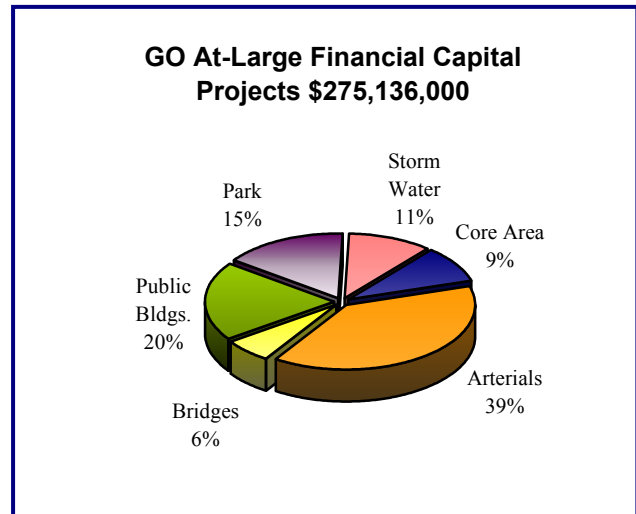


Capital Improvement Program Expenditures \$1,639,480,000



The City finances capital projects in a variety of ways: general obligation bonds/notes, revenue bonds, grants and cash. The most significant of these is general obligation (GO) bonds based on the full faith and credit of the City. GO bonds provide debt financing for property tax funded projects, and also for capital projects with debt paid by enterprises such as Airport, Golf, and Storm Water and special revenues such as Guest Tax. Based on generally accepted accounting principles, debt service payments for GO debt are spread to the Debt Service Fund or the various enterprise and internal service funds, as appropriate.

The projects that rely primarily upon property taxes are arterial streets, bridges, parks, transit, core area projects and public buildings. Partial storm water funding with property tax backed GO bonds is continued in this program. Other capital project costs are funded through enterprise, internal service and special revenue funds.



Highlights

Arterials and bridges account for 38 percent of at-large project costs and encompass 95 projects. Over \$105 million in at-large resources leverages over \$180 million in Federal and State grants. There is often a two to three year lead-time for grant funding, so it is critical that local funds be available as scheduled. Arterial street projects are balanced between the repair/improvement of older streets, and new construction to serve developing areas of the City.

Park projects total \$48,221,000, spread over 39 projects throughout the City. Funds for park renovation, new parkland acquisition and new park development are included. Park capital program highlights include developing the Northeast sports complex, rehabilitating Riverside Park, and significant investments in the maintenance and upgrade of existing parks.

Public buildings include 27 projects and \$54,174,000 in at-large resources. Other funding sources increase total planned public building expenditures to \$67,629,000. Major projects include the implementation of the Fire Station Construction and Relocation plan, a new National Guard Readiness Center, the Fire apparatus replacement program and expansion of the City's maintenance facilities.

Core area projects continue to demonstrate the City's commitment to the vitality of the downtown area. A total of

\$25.4 million is allocated for projects such as River Corridor improvements and additional cultural attractions in downtown.

Transit capital funding of \$23.1 million for bus and van replacements are planned using a combination of Transit revenues and Federal funds.

Storm water at-large funding totals \$29.3 million. Utility revenues and other sources fund an additional \$14.4 million in capital projects, with total category expenditures of \$49.6 million. Major projects include drainage improvements along West St. between Maple and Central, implementation of Cowskin/Calfskin Creek basin improvements and enlarging and lining the Wichita Drainage Canal north from 10th Street to 17th Street.

A number of other capital project categories are financed primarily through non-property tax backed sources. Enterprise revenues, local sales tax dollars, or State and Federal grant dollars are the primary financing sources for these projects.

Freeways consist of more than \$233 million in projects over the next seven years with 65 percent funded by a one percent local sales tax (LST). The freeway program emphasizes construction of interchanges along the U.S. 54 (Kellogg) corridor. It calls for construction of interchanges at Woodlawn, Tyler, Maize and Rock Road by 2005. Funding for right-of-way purchases are included for future interchanges at Webb and Greenwich in East Wichita and at 119th, 135th, and 151st Streets in West Wichita. Without outside funding assistance, the projects at Webb, Greenwich and 119th to 151st will not be constructed.

The **Airport** CIP consists of 40 projects totaling \$215 million, funded by Airport revenues (\$131 million) and Federal funds (\$82 million). Projects are identified for Mid-Continent and Jabara airports. Major projects include a parking structure at Mid-Continent and reconstructed aprons and taxiways.

The **Water and Sewer Utility** has projects programmed for extension of services to far west and far northeast Wichita to accommodate growth in these sectors. The Water capital plan totals \$255 million. In particular, over \$70 million is programmed for improved transmission facilities throughout the system. Additionally, a second water treatment plant is planned, to be located in northwest Wichita. Expenditures of more than \$106 million are anticipated for developing additional water supplies for Wichita. Water system upgrades are planned as well, such as repairs to the 48" and 66" raw water lines that flow into the water treatment plant. Without these repairs, the system risks pressure problems and property damage due to main breaks that result in pipeline failure.

Planned Sewer capital projects total \$173 million. Highlights of the Sewer CIP include the construction of a new sewage

treatment plant in northwest Wichita, the collection system necessary to accommodate the plant, and improvements to existing treatment plant #2. A major investment is also a sewer main replacement program (\$39.5 million) to reconstruct an aging infrastructure.

Implementation of the Water and Sewer capital projects plans will require utility rate increases. Staff is working to ensure these increase are as low as possible while still able to pay for the required system enhancements.

Conclusion

The Capital Improvement Program is a diligent effort to reflect the desires of the Council and the citizens of Wichita. Not all projects are funded, but the CIP does prioritize needs in the community such as:

- accelerating the construction of Kellogg;
- implementing the Fire Station Construction/Relocation plan approved by the Council;
- developing a future water supply;
- building a new National Guard Readiness Center;
- consolidating maintenance operations through improvements at the Central Maintenance Facility;
- increasing emphasis on building new drainage systems to eliminate flooding;

- developing additional parking downtown;
- enhancing the City's cultural museums;
- rehabilitating existing parks, constructing new sports complexes and constructing new parks.

However, not all needs could be met:

- The local sales tax, by itself is not sufficient to construct all segments of the planned freeway system.
- Storm Water projects are below critical needs projections, despite the addition of at-large funding.
- Funding is included for only one bridge over the floodway in west Wichita. Constructing more than one crossing would require that additional funds be identified.
- Funding for several major new parks is not included beyond preliminary design.
- Other capital requests in all categories could not be scheduled within the ten-year CIP.

The City Council has adopted the 2002-2011 Capital Improvement Program and approved the 2002-2003 CIP as a capital budget for purposes of project initiation. The 2002-2003 CIP is a very aggressive capital budget, totaling over \$581 million, but when implemented, the community will be better served by the policy decisions reflected in this document.

GO At-large Capital Project Expenditures by Year

